



---

Human Resources and Occupational Development Council

Xavier González Calderón  
Executive Director

March 19, 2003

Robert R. Wallace  
Regional Inspector General for Audit  
U.S. Department of Labor – OIG  
61 Forsyth Street, S.W.  
Room 6T20  
Atlanta, Georgia 30303-3104

Dear Mr. Wallace:

The enclosed schedule contains the Puerto Rico Human Resources and Occupational Development Council's (PRHRODC) comments to the draft report of the evaluation of the Commonwealth of Puerto Rico's obligation and expenditure activities for available Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds (reference number 04-03-010-03-390) performed by the firm Harper, Rains, Stokes & Knight.

As describe on our comments to the draft report, certain sections of the report should be revised to address the clarifications presented by the PRHRODC in the enclosed schedule.

We would like the opportunity to have a conference call with your representatives to clarify the information included on the report as findings and discuss our response.

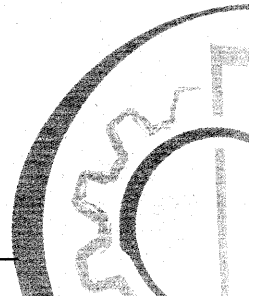
If you have any questions concerning this letter or the attach schedule, please contact Joe Alvarez Nazario, Deputy Director, at (787)754-5504.

Sincerely,

  
Xavier González Calderón  
Executive Director

Enclosure

BankTrust Plaza, Suite 200, 255 Ponce De León Ave., San Juan, PR 00917  
P.O. Box 192159 San Juan, PR 00919-2159 • Tel. (787) 754-5504 / Fax (787) 763-0195





### Schedule of Comments

Evaluation Commonwealth of Puerto Rico's obligation and expenditure activities for available Job Training Partnership Act (JTPA) balances and Workforce Investment Act (WIA) funds (Report No. 04-03-010-03-390)

#### Procedure 1:

- a. **Finding: We found that the Local areas inconsistently reported data on the monthly reports. Some local Areas reported obligations to the Commonwealth, while others reported only accumulated expenditures. These amounts were consolidated and reported on Federal FSRs as obligations.**

Comment: For the period ended December 31, 2001, only four (4) local areas did not reported unliquidated obligations as required by PRHRODC on monthly reports. The use of the term "inconsistently" applied to all local areas does not reflect the correct condition at that date, which was limited to four Local Areas.

As noted on the draft report, the Local Areas which did not report unliquidated obligations on December started reporting this item during the quarter ended March 31, 2002, this was the result of follow-up by the PRHRODC to assure compliance with the federal reporting requirements.

- b. **Finding: The majority of the amounts reported as obligations were, in fact, expenditures at the Local Area level rather than actual obligations. However, for Statewide Activities and Rapid Response, the amounts reported as "obligations" were actual obligations at the State level. Therefore, the Commonwealth did not report obligations as defined at 20 CFR 660.300 which would include all funds allocated to Local Boards.**

Comment: The obligations total of the WIA FSR includes both Outlays (accrued expenditures) and unliquidated obligations. The expenditure amount is an integral part of the total obligations reported for a given period. We considered that the finding statement should be modified to reflect this fact; because it gives the impression that the reported expenditures are not obligations, which is incorrect. The Commonwealth reporting procedures and report information are design to comply with USDOL requirements.

As stated on page 3 of the draft report, USDOL provided instructions to the Commonwealth to report as unliquidated obligations for local area activities (Local Administration, Adult Program, Youth Program and Dislocated Workers) only the aggregate of the unliquidated obligations at the local level. This leaves out of the report the actual amount obligated at the State level for these activities which equals the statutory 85% for adults and youth programs and at least 60% for the dislocated workers program. Statewide Activities includes the actual obligations for all activities



as noted on the report due to the fact that the USDOL instructions for these activities required such reporting. Both of these instructions were officially disclosed by USDOL on November 6, 2002 by the issuance of the TEGE No. 16-99, change 1. Therefore, the Commonwealth complies with the USDOL instructions to prepare the FSR.

Procedure 2:

- a. **Finding: Based on discussions with representatives of PRHRODC as well as examination of financial records at the commonwealth and Local Area levels, we determined that PRHRODC does not match costs with the appropriate fiscal period's funding. Rather, current expenditures are charge against the oldest available funding.**
- b. **Finding: Expenditure information reported to the Commonwealth by Local Areas was identified by funding period. However, reported expenditures were charge to the earliest year that funding was available, rather than the period in which the expenditures accrued. As a result, a program's cost could not be matched with the period for which it was funded.**

Comments (both findings):

The report findings reflect a situation which is not the reality of the PRHRODC accounting procedures and internal controls over financial reporting. The statements included on the draft report give the impression that the PRHRODC record expenditures without regard to the funding source, program, funding period or availability of the funds. As stated, it basically says that the only criteria to record expenditures are how old the funds available are.

The PRHRODC uses the computerized accounting system developed by Micro Information Product (MIP). This accounting system provides the PRHRODC with the ability to track authorizations, expenditures, obligations and unobligated balances through the three years of availability of the WIA funds.

Currently the system is design to trace WIA financial activities by funding year, Programs (Adult, Youth, Dislocated Workers), Activities (Statewide, Statewide Administration, Statewide Activities from Recapture Local Areas funding, Rapid Response, Local Administration, Local Adult, Local Youth, Local Dislocated Workers), subrecipients (PRHRODC, each Local Area or State Agency). This system is in place and operating effectively.

For Statewide Activities (including State Administration and Rapid Response), the PRHRODC records expenditures and obligations at the appropriate moment of recording in accordance with GAAP. To provide an example, an award given to



another state agency the related unliquidated obligation will be recorded by coding the program year (PY or FY), Program, Activity and subrecipient ID. As expenditures are incurred the amount of the unliquidated obligation is decrease and related expenditure is increase.

For Local Areas, the PRHRODC requires that expenditures and unliquidated obligations be accounted and reported by Program Year, Program and activity. This mechanism provides the PRHRODC the means to record and report correctly to the USDOL.

The wording of the draft reports suggests that current period expenditures were charge to prior years or to years for which "funding remained available". We are very diligent with the use of our funds, including complying with the use of funds within the correct periods of availability. As such we incurred and record expenditures only within the two years of availability for local activities and the three years of availability for the State. If expenditure is incurred for the adult program by a local area during February 2003, for example, this cost could only be charge to the current or prior year authorized funds. If a Local Area records the expenditure as program year 2002, the PRHRODC will include that amount with the other local area reported amounts and report the total on the FSR to the USDOL in accordance with the correct funding period and the established formats and requirements.

Procedure 3:

- a. **Finding: PRHRODC officials believed their instructions were being adhere to regarding accruals. Local Area representatives at two of the three Local Areas visited maintained that reported expenditures included accruals. However, the third, Noreste, employs cash-basis accounting for the entire year but makes adjustments at year-end to be reflective of accruals.**

Comment: We are very aware of the importance of fully reporting the correct amount of expenditures at any given period. Follow-up on correct reporting is given monthly by or accounting staff to each Local Area.

This situation represents a temporary difference during the year for the Noreste because as noted on the visit the Noreste accountant reports on the cash-basis. However, at year end the closing reports are required for each program active during the year. The Noreste submits it's closing reports, which among other items, include a final expenditure report and accounts payable list, which forces the Local Area to convert to accrual basis. These reports provide the PRHRODC the assurance that for the June 30 reports the Noreste performs the required adjustments



Procedure 4:

- a. **Finding: However, as mentioned at item number 1 of this report, there was no consistency in the information that was reported to the Commonwealth by the Local Areas.**

Comment: See our comment to Procedure 1, this item should also consider our comment to revise the statement of the finding.

Procedure 5:

- a. Finding: Selection of sites. No Comment.

Procedure 6:

- a. Finding: No Comment.

Procedure 7:

- a. Finding: No Comment.

Procedure 8:

- a. **Finding: We obtained copies of these reports (Accumulated Expenditures and Petition of Funds Report) at the Commonwealth level as well as the Local Area level during our visits to the sites. PY and FY data was not reported separately on the monthly reports. Instead, the funding periods were combined and reported as "Año Programa" (Program Year) activity. PY and FY funding was bundled at the Commonwealth level before being allocated to the Local Areas. Expenditures reported to the Commonwealth by the Local Areas were charge against respective PY and FY allocations on a First-In-First-Out (FIFO) basis. This was the means by which the Commonwealth segregated the PY and FY expenditures for reporting purposes on the FSRs.**

Comment: The segregation of funding between PY and FY for a determine program year award represents additional reporting requirements for states. Instead of one set of financial reports for a program year funding, two sets must be prepared. Since the WIA implementation, the PRHRODC decided that the extra burden of reporting financial activity between PY and FY portions was not going to be pass-through to Local Areas.

Funds are not bundled together at the Commonwealth, the PRHRODC maintains a proper segregation between PY and FY funding in compliance with the respective earmarking of funds at the State level as well as at the Local Area level.



Local Area activity reported to the PRHRODC for a given program year and Program (which includes both PY and FY activities) is recorded on the FSR worksheets and the PRHRODC general ledger according to the corresponding PY and FY portions of the funds authorized for the Program Year by the USDOL.

- b. **Finding: In conjunction with the monthly reports, we reviewed source accounting records at three Local Areas we visited in order to determine if they agreed to the information reported to the Commonwealth. Of the three, only one Local Area (Sureste), provided financial records which supported the amounts reported to the Commonwealth. For both the San Juan and Noreste Local Areas, the source accounting records obtained did not support the amounts reported to the Commonwealth as of March 31, 2002. Representatives of the latter two Local Areas were unable to provide explanations as to why their financial records did not support the reported amounts.**

Comment: As the State administrative agency of WIA, the PRHRODC performs annual monitoring visits to all Local Areas to provide reasonable assurance that the Local Areas comply with fiscal and financial requirements. One of the items review during the visits is the appropriated recording and reporting of financial activities. We will review the latest report of the mentioned Local Areas and provide copy of this report to our Auditing and Monitoring Division so that follow-up can be provided to the Local Area regarding the correct recording and reporting of program activities.

Procedure 9:

- a. **Finding: As mentioned in item 8 of this report, total funding available for a Local Area's program year is a combination of PY and FY allocations. Therefore, expenditures could not be match with the appropriate PY and FY allocations at the local level.**

Comment: see the comment to the Procedure 8 regarding the PY and FY reporting implemented by the PRHRODC.

- b. **Finding: Also, the Local Areas employed FIFO methodology in matching period expenditures with funding sources. This methodology did not allow for matching of a particular period's expenditures with funding allotted to that period. As such, expenditures reported by the Local Board are not matched with the funding applicable to the period in which they were obligated, rather they are first matched against prior period remaining funds until these funds have been exhausted and then matched against subsequent period's funding.**

**For instance, any amount of PY 2000 funding that remained after PY 2000 had lapsed would be use to satisfy subsequent period's expenditures until all of PY 2000 funding was exhausted. Subsequently, PY 2001 funding would have been**



**utilized to satisfy the period's expenditures. Matching a period's expenditures against prior period funding dissociates the funding allotted to a specific period from the actual cost of that period.**

Comments: As describe on the report (page 3) and WIA regulations, States have the original program year plus two additional program years to spend the grant funds; funds allocated by a State to a Local Board for any program year are available for expenditure only during that program year and the succeeding program year. The Local Areas and the PRHRODC only charge expenditures to grants during their valid period of availability.

The draft report mentions an example that indicates "any amount of PY 2000 funding that remained after PY 2000 had lapsed would be use to satisfy subsequent period's expenditures until all of PY 2000 funding was exhausted." This statement is incorrect and will also reflect an unallowable activity under WIA. It is very important to clearly state that PRHRODC and the Local Areas fully comply with the recording of expenditures within the correct period of availability of funds.

We believe that the independent accountants are incorrect on their statements of the time lapse of funds under WIA. To take their example, PY 2000 funding is available for expenditures until June 30, 2003. After that date, the PRHRODC can not and will not charge any expenditure from the next fiscal year to those funds. This has been the practice for the closed funds of PY 1998 and 1999, which have already ended their availability period. The correct matching of expenditures is performed by recording current expenditures to the correct authorized funds available for the given period.

For instance, a Local Area can legally and correctly charge expenditures to a given grant during the two year period of availability, likewise the State can do so during the three year period established on the WIA regulations (see page 3 of the draft report). By recording in this manner, there will be no disassociation of costs and funding allotted. For actual expenditures of the period will be charge to correct available funds.

Procedure 10:

- a. **Finding: However, as mentioned at item 9 of this report, there is no appropriated matching of funding year and program year cost due to the Commonwealth and Local Areas use of the FIFO methodology.**

Comment: See comments to procedure 9.

